CHAPTER 5 STATEMENT OF FINANCIAL POSITION AND STATEMENT OF CASH FLOWS

This IFRS Supplement provides expanded discussions of accounting guidance under International Financial Reporting Standards (IFRS) for the topics in Intermediate Accounting. The discussions are organized according to the chapters in *Intermediate Accounting* (13th or 14th Editions) and therefore can be used to supplement the U.S. GAAP requirements as presented in the textbook. Assignment material is provided for each supplement chapter, which can be used to assess and reinforce student understanding of IFRS.

SECTION 1 • STATEMENT OF FINANCIAL POSITION

CLASSIFICATION IN THE STATEMENT OF FINANCIAL POSITION

Statement of financial position accounts are **classified**. That is, a statement of financial position groups together similar items to arrive at significant subtotals. Furthermore, the material is arranged so that important relationships are shown.

The IASB indicates that the parts and subsections of financial statements are more informative than the whole. Therefore, the IASB discourages the reporting of summary accounts alone (total assets, net assets, total liabilities, etc.). Instead, companies should report and classify individual items in sufficient detail to permit users to assess the amounts, timing, and uncertainty of future cash flows. Such classification also makes it easier for users to evaluate the company's liquidity and financial flexibility, profitability, and risk.

To classify items in financial statements, companies group those items with similar characteristics and separate items with different characteristics. For example, companies should report separately:

1. Assets and liabilities with **different general liquidity characteristics**. For example, **Nokia** (FIN) reports cash separately from inventories.
2. Assets that differ in their **expected function** in the company's central operations or other activities. For example, **IBM** (USA) reports merchandise inventories separately from property, plant, and equipment. Similarly, a company like **Marks and Spencer plc** (GBR) that uses assets in its operations should report these assets differently from assets held for investments and assets subject to restrictions, such as leased facilities.
3. Liabilities that differ in their **amounts, nature, and timing**. For example, **Royal Ahold** (NLD) should report accounts payable separately from its pension liability.

The three general classes of items included in the statement of financial position are assets, liabilities, and equity. We defined them in Chapter 2 as follows.[1]

[1]A company may classify the statement of financial position in some other manner, but in practice you see little departure from these major subdivisions. In some countries, such as Germany, companies often list current assets first. *IAS No. 1* requires companies to distinguish current assets and liabilities from non-current ones, except in limited situations. [1]

U.S. GAAP PERSPECTIVE

U.S. GAAP definitions for elements of the statement of financial position are similar but not identical to IFRS.

ELEMENTS OF THE STATEMENT OF FINANCIAL POSITION

1. **ASSET.** Resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.
2. **LIABILITY.** Present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
3. **EQUITY.** Residual interest in the assets of the entity after deducting all its liabilities.

Companies then further divide these items into several subclassifications. Illustration 5-1 indicates the general format of statement of financial position presentation.

ILLUSTRATION 5-1
Statement of Financial Position Classification

Assets	Equity and Liabilities
Non-current assets	Equity
Investments	*Share capital*
Property, plant, and equipment	*Share premium*
Intangible assets	*Retained earnings*
Other assets	*Accumulated other comprehensive income*
Current assets	*Non-controlling interest (Minority interest)*
	Non-current liabilities
	Current liabilities

U.S. GAAP PERSPECTIVE

The order of presentation differs between U.S. GAAP and IFRS. U.S. GAAP statements report current assets first followed by non-current assets. Current liabilities, non-current liabilities, and shareholders' equity then follow.

Non-Current Assets

Current assets are cash and other assets a company expects to convert to cash, sell, or consume either in one year or the operating cycle, whichever is longer. **Non-current assets** are those not meeting the definition of current assets. They include a variety of items, as we discuss in the following sections.

Long-Term Investments

Long-term investments, often referred to simply as investments, normally consist of one of four types:

1. Investments in securities, such as bonds, ordinary shares, or long-term notes.
2. Investments in tangible assets not currently used in operations, such as land held for speculation.
3. Investments set aside in special funds such as a sinking fund, pension fund, or plant expansion fund.
4. Investments in non-consolidated subsidiaries or associated companies.

Companies group investments in debt and equity securities into three separate portfolios for valuation and reporting purposes:

- **Held-for-collection**: Debt securities that a company manages to collect contractual principal and interest payments.
- **Trading** (also referred to as designated at fair value through profit or loss): Debt and equity securities bought and held primarily for sale in the near term to generate income on short-term price changes.
- **Non-trading equity**: Certain equity securities held for purposes other than trading (e.g., to meet a legal or contractual requirement).

The IASB recently issued IFRS 9, *Financial Instruments*, which eliminated the available-for-sale and held-to-maturity classifications. We further discuss the held-for-collection and non-trading equity securities in Chapter 17.

A company should report trading securities (whether debt or equity) as current assets. It classifies individual held-for-collection and non-trading equity securities as current or non-current, depending on the circumstances. It should report held-for-collection securities at amortized cost. All trading and non-trading equity securities are reported at fair value. **[2]**

Christian Dior (FRA) reported its investments as follows.

Christian Dior
(000,000)

Investments in associates	€219
Non-current financial assets	375

ILLUSTRATION 5-2
Statement of Financial Position Presentation of Long-Term Investments

Property, Plant, and Equipment

Property, plant, and equipment are tangible long-lived assets used in the regular operations of the business. These assets consist of physical property such as land, buildings, machinery, furniture, tools, and wasting resources (minerals). With the exception of land, a company either depreciates (e.g., buildings) or depletes (e.g., oil reserves) these assets.

ÆON Co. Ltd. (JPN) presented its property, plant, and equipment in its statement of financial position as shown in Illustration 5-3.

ÆON Co. Ltd.
(000,000)

PROPERTY, BUILDINGS AND EQUIPMENT	
Land	¥ 316,649
Buildings and structures	786,075
Furniture and fixtures	120,347
Vehicles	2,459
Construction in progress	33,172
Total property, buildings and equipment	¥1,258,702

Summary of Significant Accounting Policy
Property, buildings and equipment—Property, buildings and equipment are stated at cost. Depreciation of property, buildings and equipment is computed under the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 20 to 39 years for store buildings, from 38 to 50 years for office buildings, from 3 to 20 years for structures, from 2 to 20 years for furniture and fixtures, and from 4 to 6 years for vehicles. Accumulated depreciation of property, buildings and equipment at February 20, 2008 and February 28, 2009 were ¥861,445 million and ¥906,159 million, respectively.

ILLUSTRATION 5-3
Statement of Financial Position Presentation of Property, Plant, and Equipment

A company discloses the basis it uses to value property, plant, and equipment; any liens against the properties; and accumulated depreciation—usually in the notes to the statements.

Intangible Assets

Intangible assets lack physical substance and are not financial instruments.[2] They include patents, copyrights, franchises, goodwill, trademarks, trade names, and customer

[2]A **financial instrument** is any contract that gives rise to a financial asset for one company and a financial liability or equity instrument for another company. **[3]**

lists. A company writes off (amortizes) limited-life intangible assets over their useful lives. It periodically assesses indefinite-life intangibles (such as goodwill) for impairment. Intangibles can represent significant economic resources, yet financial analysts often ignore them, because valuation is difficult. Research and development costs are expensed as incurred except for certain development costs, which are capitalized when it is probable that a development project will generate future economic benefits.

Nokia (FIN) reported intangible assets in its statement of financial position as follows.

ILLUSTRATION 5-4
Statement of Financial Position Presentation of Intangible Assets

Nokia Corporation
(000,000)

Capitalized development costs	€ 244
Goodwill	6,257
Other intangible assets	3,913
Total intangibles	€10,414

Other Assets

The items included in the section "Other assets" vary widely in practice. Some include items such as long-term prepaid expenses and non-current receivables. Other items that might be included are assets in special funds, property held for sale, and restricted cash or securities. A company should limit this section to include only unusual items sufficiently different from assets included in specific categories.

U.S. GAAP PERSPECTIVE
Within the current assets classification, items are presented in order of liquidity under U.S. GAAP.

Current Assets

As indicated earlier, **current assets are cash and other assets a company expects to convert into cash, sell, or consume either in one year or in the operating cycle, whichever is longer**. The operating cycle is the average time between when a company acquires materials and supplies and when it receives cash for sales of the product (for which it acquired the materials and supplies). The cycle operates from cash through inventory, production, receivables, and back to cash. When several operating cycles occur within one year (which is generally the case for service companies), a company uses the one-year period. If the operating cycle is more than one year, a company uses the longer period.

The five major items found in the current assets section, and their bases of valuation, are shown in Illustration 5-5. These assets are generally presented in the following order.

ILLUSTRATION 5-5
Current Assets and Basis of Valuation

Item	Basis of Valuation
Inventories	Lower-of-cost-or-net realizable value
Receivables	Estimated amount collectible
Prepaid expenses	Cost
Short-term investments	Generally, fair value
Cash and cash equivalents	Fair value

A company does not report these five items as current assets if it does not expect to realize them in one year or in the operating cycle, whichever is longer. For example, a company excludes from the current assets section cash restricted for purposes other than payment of current obligations or for use in current operations. **Generally, if a company expects to convert an asset into cash or to use it to pay a current liability**

within a year or the operating cycle, whichever is longer, it classifies the asset as current.

This rule, however, is subject to interpretation. A company classifies an investment in non-trading equity securities as either a current asset or a non-current asset, depending on management's intent. When it has holdings of ordinary or preference shares or bonds that it will hold long-term, it should not classify them as current.

Although a current asset is well defined, certain theoretical problems also develop. For example, how is inclusion of prepaid expenses in the current assets section justified? The rationale is that if a company did not pay these items in advance, it would instead need to use other current assets during the operating cycle. If we follow this logic to its ultimate conclusion, however, any asset previously purchased saves the use of current assets during the operating cycle and would be considered current.

Another problem occurs in the current-asset definition when a company consumes plant assets during the operating cycle. Conceptually, it seems that a company should place in the current assets section an amount equal to the current depreciation charge on the plant assets, because it will consume them in the next operating cycle. However, this conceptual problem is ignored. This example illustrates that the formal distinction made between some current and non-current assets is somewhat arbitrary.

Inventories

To present inventories properly, a company discloses the basis of valuation (e.g., lower-of-cost-or-net realizable value) and the cost flow assumption used (e.g., FIFO or average cost). Presented in Illustration 5-6 is how **Royal Ahold** (NLD) reports its inventories.

ILLUSTRATION 5-6
Statement of Financial Position Presentation of Inventories

Royal Ahold
(000,000)

CURRENT ASSETS	
INVENTORIES (NOTE 16)	**€1,319**

Note 16
Inventories are stated at cost or net realizable value, whichever is lower. Cost consists of all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition, net of vendor allowances attributable to inventories. The cost of inventories is determined using either the first-in, first-out ("FIFO") method or the weighted average cost method, depending on their nature or use. For certain inventories, cost is measured using the retail method, whereby the sales value of the inventories is reduced by the appropriate percentage gross margin. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated marketing, distribution and selling expenses.

A manufacturing company, like **Acer Incorporated** (TWN), also indicates the stage of completion for inventory, as shown in Illustration 5-7. Note that Acer shows amounts in new Taiwan dollars (NT$) and U.S. dollars ($).

Receivables

A company should clearly identify any anticipated loss due to uncollectibles, the amount and nature of any non-trade receivables, and any receivables used as collateral. Major categories of receivables should be shown in the statement of financial position or the related notes. For receivables arising from unusual transactions (such as sale of property, or a loan to associates or employees), companies should separately classify

ILLUSTRATION 5-7
Statement of Financial Position Presentation of Inventories

Acer Incorporated
(000,000)

CURRENT ASSETS		
INVENTORIES (NOTE 7)	**NT$ 40,028,195**	**$1,219,702**

Note 7
Inventories

	NT$	US$
Raw materials	14,528,727	442,706
Work in process	49,437	1,506
Finished goods	16,907,906	515,202
Spare parts	4,544,547	138,477
Inventories in transit	9,233,802	281,364
Less: provision for inventory obsolescence and net realizable value	(5,236,224)	(159,553)
	40,028,195	**1,219,702**

these as long-term, unless collection is expected within one year. **Reed Elsevier** (GBR) reported its receivables as shown in Illustration 5-8.

ILLUSTRATION 5-8
Statement of Financial Position Presentation of Receivables

Reed Elsevier
(000,000)

CURRENT ASSETS		
TRADE AND OTHER RECEIVABLES	**NOTE 22**	**€1,685**

Note 22 Trade and other receivables

Trade receivables	€1,578
Allowance for doubtful debts	(77)
	1,501
Prepayments and accrued income	184
Total	**€1,685**

Trade receivables are predominantly non-interest bearing and their carrying amounts approximate their fair value.

Prepaid Expenses

A company includes prepaid expenses in current assets if it will receive benefits (usually services) within one year or the operating cycle, whichever is longer. As we discussed earlier, these items are current assets because if they had not already been paid, they would require the use of cash during the next year or the operating cycle. A company reports prepaid expenses at the amount of the unexpired or unconsumed cost.

A common example is the prepayment for an insurance policy. A company classifies it as a prepaid expense because the payment precedes the receipt of the benefit of coverage. Other common prepaid expenses include prepaid rent, advertising, taxes, and office or operating supplies. **adidas** (DEU) reports prepaid expenses in other current assets, along with tax receivables other than income taxes and derivative financial assets, as shown in Illustration 5-9.

ILLUSTRATION 5-9
Statement of Financial Position Presentation of Prepaid Expenses

adidas
(000,000)

OTHER CURRENT ASSETS	NOTE 9	€789

Note 9 Other current assets
Other current assets consist of the following:

Prepaid expenses	€292
Tax receivables other than income taxes	82
Financial assets	
Interest rate derivatives	1
Currency options	22
Forward contracts	156
Security deposits	66
Other financial assets	43
Sundry	129
Other current assets, gross	**791**
Less: allowance	2
Other current assets, net	**€789**

Short-Term Investments

As indicated earlier, a company should report trading securities (whether debt or equity) as current assets. It classifies individual held-for-collection and non-trading equity securities as current or non-current, depending on the circumstances. It should report held-for-collection securities at amortized cost. All trading and non-trading equity securities are reported at fair value.[3]

Illustration 5-10 provides an excerpt from the annual report of **ABInBev** (BEL) with respect to its short-term financial assets.

ILLUSTRATION 5-10
Statement of Financial Position Presentation of Short-Term Investments

ABInBev
(000,000)

INVESTMENT SECURITIES (NOTE 17)	€179

Note 17

Current investments

Financial assets at fair value through profit or loss	€170
Debt securities	9
	€179

[3]Under the fair value option, companies may elect to use fair value as the measurement basis for selected financial assets and liabilities. For these companies, some of their financial assets (and liabilities) may be recorded at historical cost, while others are recorded at fair value. [4]

Cash

Cash is generally considered to consist of currency and demand deposits (monies available on demand at a financial institution). **Cash equivalents** are short-term highly liquid investments that will mature within three months or less. Most companies use the caption "Cash and cash equivalents," and they indicate that this amount approximates fair value. As an example, see the excerpt from **adidas** (DEU) in Illustration 5-11.

ILLUSTRATION 5-11
Statement of Financial Position Presentation of Cash and Cash Equivalents

adidas
(000,000)

CASH (NOTE 5)	**€244**

Note 5 Cash and cash equivalents

Cash and cash equivalents consist of cash at banks and on hand as well as short-term bank deposits.

A company must disclose any restrictions or commitments related to the availability of cash. If a company restricts cash for purposes other than current obligations, it excludes the cash from current assets. Illustration 5-12 shows an example of this, from the annual report of **Vodafone plc** (GBR).

ILLUSTRATION 5-12
Statement of Financial Position—Restricted Cash

Vodafone plc
(000,000)

NON-CURRENT ASSETS	
OTHER INVESTMENTS (NOTE 15)	**£7,060**

Note 15 Other investments

Other investments comprise the following, all of which are classified as listed and unlisted, with the exception of other debt and bonds, which are classified as loans and receivables, and cash held as restricted deposits.

Listed securities	
Equity securities	£3,931
Unlisted securities	
Equity securities	833
Public debt and bonds	20
Other debt and bonds	2,094
Cash held as restricted deposits	182
	£7,060

Equity

The **equity** (also referred to as **shareholders' equity**) section is one of the most difficult sections to prepare and understand. This is due to the complexity of ordinary and preference share agreements and the various restrictions on equity imposed by corporation laws, liability agreements, and boards of directors. Companies usually divide the section into six parts:

EQUITY SECTION

1. **SHARE CAPITAL.** The par or stated value of shares issued. It includes ordinary shares (sometimes referred to as *common shares*) and preference shares (sometimes referred to as *preferred shares*).
2. **SHARE PREMIUM.** The excess of amounts paid-in over the par or stated value.
3. **RETAINED EARNINGS.** The corporation's undistributed earnings.
4. **ACCUMULATED OTHER COMPREHENSIVE INCOME.** The aggregate amount of the other comprehensive income items.
5. **TREASURY SHARES.** Generally, the amount of ordinary shares repurchased.
6. **NON-CONTROLLING INTEREST (MINORITY INTEREST).** A portion of the equity of subsidiaries not owned by the reporting company.

For ordinary shares, companies must disclose the par value and the authorized, issued, and outstanding share amounts. The same holds true for preference shares. A company usually presents the share premium (for both ordinary and preference shares) in one amount, although subtotals are informative if the sources of additional capital are varied and material. The retained earnings amount may be divided between the **unappropriated** (the amount that is usually available for dividend distribution) and **restricted** (e.g., by bond indentures or other loan agreements) amounts. In addition, companies show any shares reacquired (treasury shares) as a reduction of equity.

U.S. GAAP PERSPECTIVE

While the use of the term "reserve" is discouraged in U.S. GAAP, there is no prohibition under IFRS.

Accumulated other comprehensive income (sometimes referred to as *reserves* or *other reserves*) includes such items as unrealized gains and losses on non-trading equity securities and unrealized gains and losses on certain derivative transactions. Non-controlling interest, sometimes referred to as minority interest, is also shown as a separate item (where applicable) as a part of equity.

Illustration 5-13 presents an example of the equity section for **Delhaize Group** (BEL).

ILLUSTRATION 5-13
Statement of Financial Position—Equity

DELHAIZE GROUP
(000,000)

Share capital	€ 50
Share premium	2,725
Treasury shares	(56)
Retained earnings	2,678
Other reserves	(1,254)
Shareholders' equity	4,143
Minority interests	52
Total equity	€ 4,195

Many companies reporting under IFRS often use the term "reserve" as an all-inclusive catch-all for items such as retained earnings, share premium, and accumulated other comprehensive income. An example of such a presentation is shown for **Lenovo Group Limited** (CHN).

ILLUSTRATION 5-14
Statement of Financial Position Presentation of Reserves

LENOVO GROUP LIMITED
(000,000)

Share capital	$ 29,530
Reserves	1,281,208
Shareholders' funds	1,310,738
Minority interests	177
Total equity	$1,310,915

The equity accounts in a corporation differ considerably from those in a partnership or proprietorship. Partners show separately their permanent capital accounts and the balance in their temporary accounts (drawing accounts). Proprietorships ordinarily use a single capital account that handles all of the owner's equity transactions.

Non-Current Liabilities

Non-current liabilities are obligations that a company does not reasonably expect to liquidate within the longer of one year or the normal operating cycle. Instead, it expects to pay them at some date beyond that time. The most common examples are bonds payable, notes payable, some deferred income tax amounts, lease obligations, and pension obligations. **Companies classify non-current liabilities that mature within the current operating cycle or one year as current liabilities if payment of the obligation requires the use of current assets.**

Generally, non-current liabilities are of three types:

1. Obligations arising from specific financing situations, such as the issuance of bonds, long-term lease obligations, and long-term notes payable.
2. Obligations arising from the ordinary operations of the company, such as pension obligations and deferred income tax liabilities.
3. Obligations that depend on the occurrence or non-occurrence of one or more future events to confirm the amount payable, or the payee, or the date payable, such as service or product warranties, environmental liabilities, and restructurings, often referred to as *provisions*.

Companies generally provide a great deal of supplementary disclosure for non-current liabilities, because most long-term debt is subject to various covenants and restrictions for the protection of lenders.

Companies frequently describe the terms of all non-current liability agreements (including maturity date or dates, rates of interest, nature of obligation, and any security pledged to support the debt) in notes to the financial statements. Illustration 5-15 provides an example of this, taken from an excerpt from **Vodafone plc**'s (GBR) financials.

ILLUSTRATION 5-15
Statement of Financial Position Presentation of Non-Current Liabilities

Vodafone plc
(000,000)

Non-current liabilities	
Long term borrowings	€31,749
Deferred tax liabilities	6,642
Post employment benefits	240
Provisions	533
Trade and other payables	811
	€39,975

Current Liabilities

Current liabilities are the obligations that a company generally expects to settle in its normal operating cycle or one year, whichever is longer. This concept includes:

1. Payables resulting from the acquisition of goods and services: accounts payable, wages payable, taxes payable, and so on.
2. Collections received in advance for the delivery of goods or performance of services, such as unearned rent revenue or unearned subscriptions revenue.
3. Other liabilities whose liquidation will take place within the operating cycle or one year, such as the portion of long-term bonds to be paid in the current period,

short-term obligations arising from purchase of equipment, or estimated liabilities, such as a warranty liability. As indicated earlier, estimated liabilities are often referred to as provisions.

At times, a liability that is payable within the next year is not included in the current liabilities section. This occurs when the company refinances the debt on a long-term basis before the end of the reporting period. **[5]** This approach is used because liquidation does not result from the use of current assets or the creation of other current liabilities.

Companies do not report current liabilities in any consistent order. In general, though, companies most commonly list notes payable, accounts payable, or short-term debt as the first item. Income tax payables or other current liabilities are commonly listed last. For example, see **Siemens AG**'s (DEU) current liabilities section in Illustration 5-16.

ILLUSTRATION 5-16
Statement of Financial Position Presentation of Current Liabilities

SIEMENS AG
(000,000)

Current liabilities	
Short-term debt and current maturities of long-term debt	€ 1,819
Trade payables	8,860
Other current financial liabilities	2,427
Current provisions	5,165
Income tax payables	1,970
Other current liabilities	21,644
Liabilities associated with assets classified as held for disposal	566
Total current liabilities	€42,451

Current liabilities include such items as trade and non-trade notes and accounts payable, advances received from customers, and current maturities of long-term debt. If the amounts are material, companies classify income taxes and other accrued items separately. A company should fully describe in the notes any information about a secured liability—for example, shares held as collateral on notes payable—to identify the assets providing the security.

The excess of total current assets over total current liabilities is referred to as **working capital** (or sometimes **net working capital**). Working capital represents the net amount of a company's relatively liquid resources. That is, it is the liquidity buffer available to meet the financial demands of the operating cycle.

Companies seldom disclose on the statement of financial position an amount for working capital. But bankers and other creditors compute it as an indicator of the short-run liquidity of a company. To determine the actual liquidity and availability of working capital to meet current obligations, however, requires analysis of the composition of the current assets and their nearness to cash.

Statement of Financial Position Format

IFRS does not specify the order or format in which a company presents items in the statement of financial position. Thus, some companies present assets first, followed by equity, and then liabilities. Other companies report current assets first in the asset section, and current liabilities first in the liability section. Many companies report items such as receivables and property, plant, and equipment net and then disclose the additional information related to the contra accounts in the notes.

In general, companies use either the account form or the report form to present the statement of financial position information. The **account form** lists assets, by sections, on the left side, and equity and liabilities, by sections, on the right side. The main disadvantage is the need for a sufficiently wide space in which to present the items side by side. Often, the account form requires two facing pages.

To avoid this disadvantage, the **report form** lists the sections one above the other, on the same page. See, for example, Illustration 5-17, which lists assets, followed by equity and liabilities directly below, on the same page.

ILLUSTRATION 5-17
Classified Report-Form Statement of Financial Position

SCIENTIFIC PRODUCTS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2011

Assets			
Non-current assets			
Long-term investments			
Investments in held-for-collection securities		$ 82,000	
Land held for future development		5,500	$ 87,500
Property, plant, and equipment			
Land		125,000	
Buildings	$975,800		
Less: Accumulated depreciation	341,200	634,600	
Total property, plant, and equipment			759,600
Intangible assets			
Capitalized development costs		6,000	
Goodwill		66,000	
Other identifiable intangible assets		28,000	100,000
Total non-current assets			**947,100**
Current assets			
Inventories		489,713	
Prepaid expenses		16,252	
Accounts receivable	165,824		
Less: Allowance for doubtful accounts	1,850	163,974	
Short-term investments		51,030	
Cash and cash equivalents		52,485	
Total current assets			**773,454**
Total assets			**$1,720,554**
Equity and Liabilities			
Equity			
Share capital—preference	$300,000		
Share capital—ordinary	400,000		
Share premium—preference	10,000		
Share premium—ordinary	27,500		
Retained earnings	170,482		
Accumulated other comprehensive income	(8,650)		
Less: Treasury shares	12,750		
Equity attributable to owners		$886,582	
Minority interest		13,500	
Total equity			**$ 900,082**
Non-current liabilities			
Bond liabilities due January 31, 2020	425,000		
Provisions related to pensions	75,000		
Total non-current liabilities		**500,000**	
Current liabilities			
Notes payable	80,000		
Accounts payable	197,532		
Interest payable	20,500		
Salary and wages payable	5,560		
Provisions related to warranties	12,500		
Deposits received from customers	4,380		
Total current liabilities		**320,472**	
Total liabilities			**820,472**
Total equity and liabilities			**$1,720,554**

Infrequently, companies use other statement of financial position formats. For example, companies sometimes deduct current liabilities from current assets to arrive at working capital. Or, they deduct all liabilities from all assets.

SECTION 2 • STATEMENT OF CASH FLOWS

Chapter 2 indicated that one of the three basic objectives of financial reporting is "assessing the amounts, timing, and uncertainty of cash flows." The three financial statements we have looked at so far—the income statement (or statement of comprehensive income), the statement of changes in equity, and the statement of financial position—each present some information about the cash flows of an enterprise during a period. But they do so to a limited extent. For instance, the income statement provides information about resources provided by operations but not exactly cash. The statement of changes in equity shows the amount of cash used to pay dividends or purchase treasury shares. Comparative statements of financial position might show what assets the company has acquired or disposed of and what liabilities it has incurred or liquidated.

Useful as they are, none of these statements presents a detailed summary of all the cash inflows and outflows, or the sources and uses of cash during the period. To fill this need, the IASB requires the **statement of cash flows** (also called the **cash flow statement**). [6]

Underlying Concepts

The statement of cash flows meets one of the objectives of financial reporting—to help assess the amounts, timing, and uncertainty of future cash flows.

PURPOSE OF THE STATEMENT OF CASH FLOWS

The primary purpose of a statement of cash flows is to provide relevant information about the cash receipts and cash payments of an enterprise during a period. To achieve this purpose, the statement of cash flows reports the following: (1) the cash effects of operations during a period, (2) investing transactions, (3) financing transactions, and (4) the net increase or decrease in cash during the period.

U.S. GAAP PERSPECTIVE

U.S. GAAP and IFRS use the same format for the statement of cash flows.

SECTION 3 • ADDITIONAL INFORMATION

FINANCIAL STATEMENTS AND NOTES

IFRS requires that a complete set of financial statements be presented annually. Along with the current year's financial statements, companies must also provide **comparative information** from the previous period. In other words, two complete sets of financial statements and related notes must be reported.

A complete set of financial statements comprise the following.

1. A statement of financial position at the end of the period;
2. A statement of comprehensive income for the period to be presented either as:
   - **(a)** One single statement of comprehensive income.
   - **(b)** A separate income statement and statement of comprehensive income. In this situation, the income statement is presented first.

3. A statement of changes in equity;
4. A statement of cash flows; and
5. Notes, comprising a summary of significant accounting policies and other explanatory information. [7]

Chapters 4 and 5 discussed the first four items. However, the primary financial statements cannot provide the complete picture related to the financial position and financial performance of the company. Descriptive information is also required by IFRS in the notes to the financial statements to amplify or explain the items presented in the main body of the statements.

Notes to the Financial Statements

As indicated earlier, notes are an integral part of reporting financial statement information. Notes can explain in qualitative terms information related to specific financial statement items. In addition, they can provide supplemental data of a quantitative nature to expand the information in financial statements. Notes also can explain restrictions imposed by financial arrangements or basic contractual agreements. Although notes may be technical and difficult to understand in some cases, they provide meaningful information for the user of the financial statements.

Accounting Policies

Accounting policies are the specific principles, bases, conventions, rules, and practices applied by a company in preparing and presenting financial information. The IASB recommends disclosure for all significant accounting principles and methods that involve selection from among alternatives or those that are peculiar to a given industry. For instance, companies can compute inventories under several cost flow assumptions (e.g., average cost and FIFO), depreciate plant and equipment under several accepted methods (e.g., double-declining balance and straight-line), and carry investments at different valuations (e.g., cost, equity, and fair value). Sophisticated users of financial statements know of these possibilities and examine the statements closely to determine the methods used.

Companies therefore present a Summary of Significant Accounting Policies generally as the first note to the financial statements. This disclosure is important because, under IFRS, alternative treatments of a transaction are sometimes permitted. If these policies are not understood, users of the financial statements are not able to use the financial statements to make comparisons among companies. Here are some examples of various accounting policies (Illustrations 5-18–5-21) taken from the annual reports of various companies.

ILLUSTRATION 5-18
Accounting Policies—Inventory

LG Korea (KOR)

Inventories
Inventories are stated at the lower of cost or market value, with cost being determined by the moving-average method or the weighted-average method, except for materials-in-transit for which cost is determined by the specific identification method. When the market value of inventories (net realizable value for finished goods or merchandise and current replacement cost for raw materials) is less than the carrying value, the carrying value is stated at the lower of cost or market. The Group applies the lower of cost or market method by group of inventories and loss on inventory valuation is presented as a deduction from inventories and charged to cost of sales. The valuation loss is recorded as cost of sales. If, however, the circumstances which cause the valuation loss cease to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The reversal is a deduction from cost of sales. For the years ended December 31, 2008 and 2007, ₩356,818 million and ₩131,640 million, respectively, are recorded as valuation loss.

ILLUSTRATION 5-19
Accounting Policies—Intangible Asset

Stora Enso (FIN)

Intangible assets are stated at historical cost and are amortized on a straight-line basis over their expected useful lives, which usually vary from 3 to 10 years and up to 20 years for patents.

ILLUSTRATION 5-20
Accounting Policies—Property, Plant, and Equipment

JJB Sports (GBR)

Property, plant, and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method, as follows:

Freehold land and buildings	50 years
Leasehold improvements	over the period of the lease
Plant and equipment	5 to 25 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the profit or loss.

ILLUSTRATION 5-21
Accounting Policies—Financial Liabilities

Delhaize Group (BEL)

Non-derivative Financial Liabilities
IAS 39 *Financial Instruments: Recognition and Measurement* contains two categories for non-derivative financial liabilities (hereafter "financial liabilities"): financial liabilities at fair value through profit or loss and financial liabilities measured at amortized cost. Delhaize Group holds only financial liabilities measured at amortized cost, which are included in "Debts," "Borrowings," "Accounts payable" and "Other liabilities."

Additional Notes to the Financial Statements

In addition to a note related to explanation of the companies' accounting policies, companies use specific notes to discuss items in the financial statements. Judgment must be exercised to identify the important aspects of financial information that need amplification in the notes. In many cases, IFRS requires specific disclosures. For example, using the statement of financial position as an example, note disclosures include:

1. Items of property, plant, and equipment are disaggregated into classes such as land, buildings, etc., in the notes, with related accumulated depreciation reported where applicable.
2. Receivables are disaggregated into amounts receivable from trade customers, receivables from related parties, prepayments, and other amounts.
3. Inventories are disaggregated into classifications such as merchandise, production supplies, work in process, and finished goods.
4. Provisions are disaggregated into provisions for employee benefits and other items.

In addition, there are often schedules and computations required by a specific standard. For example, for receivables, IFRS requires a maturity analysis for receivables. Illustration 5-22 shows a maturity analysis for **Cadbury plc** (GBR).

ILLUSTRATION 5-22
Maturity Analysis for Receivables

Cadbury plc
(millions)

	2008		2007	
	Current	Non-current	Current	Non-current
Trade receivables	£835	—	£997	—
Less: provision for impairment of trade receivables	(46)	—	(45)	—
	£789	—	£952	—

20. Trade and other receivables

The aged analysis of past due but not impaired receivables is as follows:

	2008	2007
Total trade receivables	£835	£997
Less: Provision for impairment of trade receivables	(46)	(45)
	£789	£952
Of which:		
Not overdue	£657	£748
Past due less than three months	123	177
Past due more than three months	9	27
	£789	£952

Another maturity analysis is required for financial liabilities. Illustration 5-23 shows such an analysis for **Christian Dior** (FRA).

ILLUSTRATION 5-23
Maturity Analysis for Financial Liabilities

Christian Dior

Note 17.4
Analysis of gross borrowings by payment date before hedging

(millions)		2008	*(millions)*		Maturing in 2009
Payment date	2009	€2,522	Payment date	First quarter	€1,871
	2010	1,286		Second quarter	175
	2011	1,214		Third quarter	119
	2012	1,293		Fourth quarter	357
	2013	486			
	Thereafter	336			
TOTAL		€7,137	TOTAL		€2,522

Also, companies are required to reconcile the balances for many of the assets and liabilities reported in the financial statements from the beginning to the end of the year. For example, a reconciliation of the balances in property, plant, and equipment; intangible assets; and provisions are generally provided. An example for property, plant, and equipment for **Nestlé** (CHE) is shown in Illustration 5-24.

Nestlé
(000,000)

	Land and buildings	Machinery and equipment	Tools, furniture and other equipment	Vehicles	Total
Gross value					
At 1 January	**CHF13,245**	**CHF25,455**	**CHF7,446**	**CHF931**	**CHF47,077**
Currency retranslations	(156)	(478)	(171)	(86)	(891)
Capital expenditure	860	2,695	1,209	207	4,971
Disposals	(258)	(884)	(492)	(78)	(1,712)
Reclassified as held for sale	(30)	(38)	(3)	—	(71)
Modification of the scope of consolidation	90	51	3	(44)	100
At 31 December	**CHF13,751**	**CHF26,801**	**CHF7,992**	**CHF930**	**CHF49,474**

ILLUSTRATION 5-24
Reconciliation Schedule for Property, Plant, and Equipment

Note disclosure is extensive using IFRS. Many companies' annual reports are substantial in nature, and it is not unusual for a large company to have over 20 pages of notes to the financial statements.

TECHNIQUES OF DISCLOSURE

Companies should disclose as completely as possible the effect of various uncertainties on financial condition, the methods of valuing assets and liabilities, and the company's contracts and agreements. To disclose this pertinent information, companies may use parenthetical explanations and cross-reference and contra items.

Parenthetical Explanations

Companies often provide additional information by parenthetical explanations following the item. For example, Illustration 5-25 shows a parenthetical explanation of the number of shares issued by **Cadbury plc** (GBR) on the statement of financial position under "Equity."

Cadbury plc

Equity	
Ordinary shares (1,361 million of 10p each)	£136,100,000

ILLUSTRATION 5-25
Parenthetical Disclosure of Shares Issued—Cadbury plc

This additional pertinent statement of financial position information adds clarity and completeness. It has an advantage over a note because it brings the additional information into the **body of the statement** where readers will less likely overlook it. Companies, however, should avoid lengthy parenthetical explanations, which might be distracting.

Cross-Reference and Contra Items

Companies "cross-reference" a direct relationship between an asset and a liability on the statement of financial position. For example, as shown in Illustration 5-26, on

December 31, 2011, a company might show the following entries—one listed among the current assets, and the other listed among the current liabilities.

ILLUSTRATION 5-26
Cross-Referencing and Contra Items

Current Assets (in part)	
Cash on deposit with sinking fund trustee for redemption of bonds payable—see Current liabilities	$800,000

Current Liabilities (in part)	
Bonds payable to be redeemed in 2011—see Current assets	$2,300,000

This cross-reference points out that the company will redeem $2,300,000 of bonds payable currently, for which it has only set aside $800,000. Therefore, it needs additional cash from unrestricted cash, from sales of investments, from profits, or from some other source. Alternatively, the company can show the same information parenthetically.

Another common procedure is to establish contra or adjunct accounts. A **contra account** on a statement of financial position reduces either an asset, liability, or equity account. Examples include Accumulated Depreciation and Allowance for Doubtful Accounts. Contra accounts provide some flexibility in presenting the financial information. With the use of the Accumulated Depreciation account, for example, a reader of the statement can see the original cost of the asset as well as the depreciation to date.

An **adjunct account**, on the other hand, increases either an asset, liability, or equity account. An example is Securities Fair Value Adjustment, which, when added to the Non-Trading Equity Investment account, describes the total investment asset of the company.

OTHER GUIDELINES

In addition to the specifics related to individual financial statements and notes to these statements, *IAS No. 1* also addresses important issues related to presentation. [8]

Offsetting

IAS No. 1 indicates that it is important that assets and liabilities, and income and expense, be reported separately. Otherwise, it may be difficult for users to understand the transactions or events that occurred at the company. Therefore, it is improper for a company like **Sinopec** (CHN) to offset accounts payable against cash. Similarly, it is improper for Sinopec to offset debt used to purchase buildings against the buildings on the statement of position. However, it is proper for Sinopec to measure assets net of valuation allowances, such as allowance for doubtful accounts or inventory net of impairment. In these cases, the company is simply reporting the appropriate value on the financial statement, and therefore it is not considered offsetting. In general, unless a specific IFRS permits offsetting, it is not permitted.

Consistency

The Framework discussed in Chapter 2 notes that one of the enhancing qualitative characteristics is comparability. As part of comparability, the Framework indicates that companies should follow consistent principles and methods from one period to the next. *IAS No. 8*, for example, notes that users of the financial statements need to be able to compare the financial statements of a company over time to identify trends in financial position, financial performance, and cash flows. **[9]** As a result, accounting policies must be consistently applied for similar transactions and events unless an IFRS requires a different policy. Thus, **Woolworths** (AUS), which uses the straight-line method for depreciating property, plant, and equipment, reports on the straight-line method for all periods presented.

Fair Presentation

Companies must present fairly the financial position, financial performance, and cash flows of the company. Fair presentation means the faithful representation of transactions and events using the definitions and recognition criteria in the Framework. It is presumed that the use of IFRS with appropriate disclosure results in financial statements that are fairly presented. In other words, inappropriate use of accounting policies cannot be overcome by explanatory notes to the financial statements.

In some rare cases, as indicated in Chapter 2, companies can use a "true and fair" override. This situation develops, for example, when the IFRS for a given company appears to conflict with the objective of financial reporting. This situation might occur when a regulatory body indicates that a specific IFRS may be misleading. As indicated earlier, a true and fair override is highly unlikely in today's reporting environment.[4]

IFRS

AUTHORITATIVE LITERATURE

Authoritative Literature References

[1] International Accounting Standard 1, *Presentation of Financial Statements* (London, U.K.: International Accounting Standards Committee Foundation, 2005), par. 60.

[2] International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (London, U.K.: International Accounting Standards Committee Foundation, 2003), paras. 43–46.

[3] International Accounting Standard 32, *Financial Instruments: Presentation* (London, U.K.: International Accounting Standards Committee Foundation, December 2003), par. 11.

[4] International Accounting Standard 39, *Financial Instruments: Recognition and Measurement* (London, U.K.: International Accounting Standards Committee Foundation, 2003), par. 9b.

[5] International Accounting Standard 1, *Presentation of Financial Statements* (London, U.K.: International Accounting Standards Committee Foundation, September 2005), par. 72.

[6] International Accounting Standard 1, *Presentation of Financial Statements* (London, U.K.: International Accounting Standards Committee Foundation, September 2005), par. 10d.

[7] International Accounting Standard 1, *Presentation of Financial Statements* (London, U.K.: International Accounting Standards Committee Foundation, September 2005), par. 10.

[8] International Accounting Standard 1, *Presentation of Financial Statements* (London, U.K.: International Accounting Standards Committee Foundation, December 2005).

[9] International Accounting Standard 8, *Accounting Policies, Changes in Accounting Estimates and Errors* (London, U.K.: International Accounting Standards Committee Foundation, 2003).

[4]One recent and highly publicized exception is the case of **Société Générale** (SocGen), a French bank. The bank used the true and fair rule to justify reporting losses that occurred in 2008 in the prior year. Although allowed under the true and fair rule, such reporting was questioned because it permitted the bank to "take a bath," that is, record as many losses as possible in 2007, which was already a bad year for the bank. As a result, SocGen's 2008 reports looked better. See F. Norris, "SocGen Changes Its Numbers," *New York Times* (May 13, 2008).

QUESTIONS

1. In what section of the statement of financial position should the following items appear, and what statement of financial position terminology would you use?
   - **(a)** Treasury shares (recorded at cost).
   - **(b)** Checking account at bank.
   - **(c)** Land (held as an investment).
   - **(d)** Sinking fund.
   - **(e)** Provision for warranties (short-term).
   - **(f)** Copyrights.
   - **(g)** Pension fund assets.
   - **(h)** Share capital—ordinary.
   - **(i)** Long-term investments (pledged against bank loans payable).
   - **(j)** Minority interest.
2. Where should the following items be shown on the statement of financial position, if shown at all?
   - **(a)** Allowance for doubtful accounts receivable.
   - **(b)** Merchandise held on consignment.
   - **(c)** Advances received on sales contract.
   - **(d)** Accumulated other comprehensive income.
   - **(e)** Land.
   - **(f)** Merchandise out on consignment.
   - **(g)** Franchises.
   - **(h)** Accumulated depreciation of plant and equipment.
   - **(i)** Materials in transit—purchased f.o.b. destination.
3. State the usual basis of valuation of each of the following assets.
   - **(a)** Trade accounts receivable.
   - **(b)** Land.
   - **(c)** Inventories.
   - **(d)** Trading securities (ordinary shares of other companies).
   - **(e)** Prepaid expenses.
4. Refer to the definition of assets at the beginning of this chapter. Discuss how a leased building might qualify as an asset of the lessee (tenant) under this definition.

EXERCISES

E5-1 (Statement of Financial Position Classifications) Presented below are a number of statement of financial position accounts of Cunningham, Inc.

- **(a)** Investment in Preference Shares.
- **(b)** Treasury Shares.
- **(c)** Share Capital—Ordinary.
- **(d)** Cash Dividends Payable.
- **(e)** Accumulated Depreciation.
- **(f)** Warehouse in Process of Construction.
- **(g)** Petty Cash.
- **(h)** Accrued Interest on Notes Payable.
- **(i)** Deficit.
- **(j)** Trading Securities.
- **(k)** Income Taxes Payable.
- **(l)** Unearned Subscription Revenue.
- **(m)** Work in Process.
- **(n)** Accrued Vacation Pay.

Instructions

For each of the accounts above, indicate the proper statement of financial position classification. In the case of borderline items, indicate the additional information that would be required to determine the proper classification.

E5-2 (Classification of Statement of Financial Position Accounts) Presented below are the captions of Nikos Company's statement of financial position.

- **(a)** Non-current assets.
  - **(1)** Investments.
  - **(2)** Property, plant, and equipment.
  - **(3)** Intangible assets.
  - **(4)** Other assets.
- **(b)** Current assets.
- **(c)** Equity.
- **(d)** Non-current liabilities.
- **(e)** Current liabilities.

Instructions

Indicate by letter where each of the following items would be classified.

1. Share capital—preference.
2. Goodwill.
3. Wages payable.
4. Trade accounts payable.
5. Buildings.
6. Trading securities.
7. Current portion of long-term debt.
8. Patent.
9. Allowance for doubtful accounts.
10. Accounts receivable.
11. Accumulated other comprehensive income.
12. Notes payable (due next year).
13. Office supplies.
14. Share capital—ordinary.
15. Land.
16. Bond sinking fund.
17. Merchandise inventory.
18. Prepaid insurance.
19. Bonds payable.
20. Taxes payable.

E5-3 (Classification of Statement of Financial Position Accounts) Assume that Masters Enterprises uses the following headings on its statement of financial position.

(a) Investments.
(b) Property, plant, and equipment.
(c) Intangible assets.
(d) Other assets.
(e) Current assets.
(f) Non-current liabilities.
(g) Current liabilities.
(h) Share capital.
(i) Share premium.
(j) Retained earnings.
(k) Accumulated other comprehensive income.

Instructions

Indicate by letter how each of the following usually should be classified. If an item should appear in a note to the financial statements, use the letter "N" to indicate this fact. If an item need not be reported at all on the statement of financial position, use the letter "X."

1. Unexpired insurance.
2. Share owned in associated companies.
3. Unearned subscriptions revenue.
4. Advances to suppliers.
5. Unearned rent revenue.
6. Share capital—preference.
7. Share premium—preference.
8. Copyrights.
9. Petty cash fund.
10. Sales tax payable.
11. Interest on notes receivable.
12. Twenty-year issue of bonds payable that will mature within the next year. (No sinking fund exists, and refunding is not planned.)
13. Accounts receivable.
14. Unrealized gain on non-trading equity securities.
15. Interest on bonds payable.
16. Salaries that company budget shows will be paid to employees within the next year.
17. Accumulated depreciation.

E5-4 (Preparation of a Classified Statement of Financial Position) Assume that Gulistan Inc. has the following accounts at the end of the current year.

1. Share Capital—Ordinary.
2. Long-Term Note Payable.
3. Treasury Shares (at cost).
4. Note Payable, short-term.
5. Raw Materials.
6. Long-Term Investment in Preference Shares.
7. Unearned Rent Revenue.
8. Work in Process.
9. Copyrights.
10. Buildings.
11. Notes Receivable (short-term).
12. Cash.
13. Accrued Salaries Payable.
14. Accumulated Depreciation—Buildings.
15. Cash Restricted for Plant Expansion.
16. Land Held for Future Plant Site.
17. Allowance for Doubtful Accounts—Accounts Receivable.
18. Retained Earnings.
19. Share Premium—Ordinary.
20. Unearned Subscriptions Revenue.
21. Receivables—Officers (due in 1 year).
22. Finished Goods.
23. Accounts Receivable.
24. Bonds Payable (due in 4 years).

Instructions

Prepare a classified statement of financial position in good form. (No monetary amounts are necessary.)

E5-5 (Statement of Financial Position Preparation) Presented below is the adjusted trial balance of Abbey Corporation at December 31, 2010.

	Debits	Credits
Cash	£ ?	
Office Supplies	1,200	
Prepaid Insurance	1,000	
Equipment	48,000	
Accumulated Depreciation—Equipment		£ 9,000
Trademarks	950	
Accounts Payable		10,000
Wages Payable		500
Unearned Service Revenue		2,000
Bonds Payable, due 2017		9,000
Share Capital—Ordinary		10,000
Retained Earnings		20,000
Service Revenue		10,000
Wages Expense	9,000	
Insurance Expense	1,400	
Rent Expense	1,200	
Interest Expense	900	
Total	£ ?	£ ?

Additional information:

1. Net loss for the year was £2,500.
2. No dividends were declared during 2010.

Instructions

Prepare a classified statement of financial position as of December 31, 2010.

E5-6 (Preparation of a Statement of Financial Position) Presented below is the trial balance of Vivaldi Corporation at December 31, 2010.

	Debits	Credits
Cash	$ 197,000	
Sales		$ 7,900,000
Trading Securities (at cost, $145,000)	153,000	
Cost of Goods Sold	4,800,000	
Long-term Investments in Bonds	299,000	
Long-term Investments in Share Capital—Ordinary	277,000	
Short-term Notes Payable		90,000
Accounts Payable		455,000
Selling Expenses	2,000,000	
Investment Revenue		63,000
Land	260,000	
Buildings	1,040,000	
Dividends Payable		136,000
Accrued Liabilities		96,000
Accounts Receivable	435,000	
Accumulated Depreciation—Buildings		352,000
Allowance for Doubtful Accounts		25,000
Administrative Expenses	900,000	
Interest Expense	211,000	
Inventories	597,000	
Provision for Pensions (long-term)		80,000
Long-term Notes Payable		900,000
Equipment	600,000	
Bonds Payable		1,000,000
Accumulated Depreciation—Equipment		60,000
Franchise	160,000	
Share Capital—Ordinary ($5 par)		1,000,000
Treasury Shares	191,000	
Patent	195,000	
Retained Earnings		78,000
Accumulated Other Comprehensive Income		80,000
Totals	$12,315,000	$12,315,000

Instructions

Prepare a statement of financial position at December 31, 2010, for Vivaldi Corporation. Ignore income taxes.

E5-7 (Preparation of a Classified Statement of Financial Position, Periodic Inventory) Presented below is a list of accounts in alphabetical order.

Accounts Receivable	Land for Future Plant Site
Accrued Wages	Loss from Flood
Accumulated Depreciation—Buildings	Minority Interest
Accumulated Depreciation—Equipment	Notes Payable (due next year)
Advances to Employees	Patent
Advertising Expense	Payroll Taxes Payable
Allowance for Doubtful Accounts	Petty Cash
Bond Sinking Fund	Prepaid Rent
Bonds Payable	Provision for Pension Benefits
Building	Purchases
Cash in Bank	Purchase Returns and Allowances
Cash on Hand	Retained Earnings
Commission Expense	Sales
Copyright	Sales Discounts
Dividends Payable	Sales Salaries
Equipment	Share Capital—Ordinary
Gain on Sale of Equipment	Share Capital—Preference
Interest Receivable	Share Premium—Ordinary
Inventory—Beginning	Trading Securities
Inventory—Ending	Transportation-in
Land	Treasury Shares (at cost)
	Unearned Subscriptions Revenue

Instructions

Prepare a classified statement of financial position in good form. (No monetary amounts are to be shown.)

USING YOUR JUDGMENT

FINANCIAL REPORTING

Financial Reporting Problem

Marks and Spencer plc (M&S)

The financial statements of **M&S** can be accessed at the book's companion website, **www.wiley.com/college/kiesoifrs**.

Instructions

Refer to M&S's financial statements and the accompanying notes to answer the following questions.

(a) What alternative formats could M&S have adopted for its statement of financial position? Which format did it adopt?

(b) Identify the various techniques of disclosure M&S might have used to disclose additional pertinent financial information. Which technique does it use in its financials?

(c) In what classifications are M&S's investments reported? What valuation basis does M&S use to report its investments? How much working capital did M&S have on 29 March 2008? On 31 March 2007?

(d) What were M&S's cash flows from its operating, investing, and financing activities for 2008? What were its trends in net cash provided by operating activities over the period 2007 to 2008? Explain why the change in accounts payable and in accrued and other liabilities is added to net income to arrive at net cash provided by operating activities.

(e) Compute M&S's: (1) current cash debt coverage ratio, (2) cash debt coverage ratio, and (3) free cash flow for 2008. What do these ratios indicate about M&S's financial conditions?

IFRS

BRIDGE TO THE PROFESSION

Professional Research

In light of the full disclosure principle, investors and creditors need to know the balances for assets, liabilities, and equity, as well as the accounting policies adopted by management to measure the items reported in the statement of financial position.

Instructions

Access the IFRS authoritative literature at the IASB website (*http://eifrs.iasb.org/*). When you have accessed the documents, you can use the search tool in your Internet browser to respond to the following questions. (Provide paragraph citations.)

(a) Identify the literature that addresses the disclosure of accounting policies.

(b) How are accounting policies defined in the literature?

(c) What are the guidelines concerning consistency in applying accounting policies?

(d) What are some examples of common disclosures that are required under this statement?